

City of Detroit

CITY COUNCIL

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ANNE MARIE LANGAN
DEPUTY DIRECTOR
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TO: Councilmembers

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: July 20, 2010

RE: Analysis of the Administration's Deficit Elimination Plan

Councilmember Cockrel, as chair of the Budget Finance and Audit Committee, requested that the Fiscal Analysis Division analyze and provide a report on the deficit elimination plan that the Administration recently submitted to the State's Treasury Division.

The deficit elimination plan as presented to Council last week, reports that the projected deficit of \$99.5 million as of June 30, 2010, will be eliminated by June 30, 2011 and there is a projection of a small surplus of \$8.52 million by June 30, 2012.

Fiscal believes that there are three major fiscal concerns for the upcoming fiscal year that will increase the deficit by \$60 million that have not been included by the Administration in their plan. We believe that the pension payments for normal cost are under budgeted by \$31 million; the state has a preliminary figure of \$22 million that the city owes back to the state due to the mistaken over capture of taxes in the GM-Poletown Tax Increment District; the overstatement of general fund revenues in the 2010-2011 budget of \$7 million.

Additionally there are concerns that we have about the items and assumptions that were included by the Administration in the plan. The following questions are preliminary questions that we hope to discuss with the Administration.

1. Why is the Nondepartmental revenues deficit of \$2.5 million separate from the revenue shortfall section listed at the top of the chart?
2. Why doesn't the DPS bad debt expense show up as collectable in the April column? We were given information from DPS that they were willing to reimburse the city.

3. Why haven't we seen documentation that expenses were moved to DDOT grants and proof that the entire General Fund subsidy wasn't transferred over?
4. Why would a Cobo surplus of \$7.9 million be listed in 2010-2011?
5. Why is there no detailed explanation for the \$85 million in Restructuring?
6. How could there already a projected operating surplus of \$14 million for 2010-2011?
7. Why has no detail on layoffs ever been provided to substantiate the savings?

We realize that before we can come up with a comprehensive response to this plan submitted to Council as well as the State Treasurer, we would like additional time to review the yearend actuals that would allow a more meaningful figure on the yearend deficit number.

We would also like to request the opportunity to meet with the Chief Financial Officer and the Finance Director to discuss the reasons for how the deficit elimination plan was assembled and the various assumptions that were used.

We would then be able to provide Council with a more complete analysis by the end of the summer recess.

As a result, we respectfully request that this issue be brought back as a line item on September 8th's Budget, Finance and Audit committee agenda for an update from Fiscal.

Attachments

cc: Council Divisions
Auditor General
Norman White, Chief Financial Officer
Tom Lijana, Finance Director
Kamau Marable, Mayor's Office

City of Detroit - FY 2010-2011 Deficit Elimination Analysis

	Risks			Opportunities			Nov-09			Apr-10		
	Low	Med	High	Low	Med	High	Cash	Operating Budget	Accumulated Deficit	Not Updated Cash	Operating Budget	Accumulated Deficit
FY 2010 Deficit									74.00			(99.50)
Debt Service												
Fiscal Stabilization Bonds	(20.00)						(20.00)	(20.00)		(14.10)	(14.10)	
Cobo				3.75	3.75	3.75	3.75	3.75		7.90	7.90	
Budget Required Furloughs				4.60	4.60	4.60	4.60	4.60		6.80	6.80	
Tunnel						40.00	40.00	40.00				
GDRRA					1.00		1.00	1.00		1.00	1.00	
Consolidations and Associated Savings				5.00	50.00	100.00	5.00	5.00		-	-	
Operating/Process Changes				5.00	50.00	100.00	5.00	5.00				
Restructuring/Consolidation										85.52	85.52	
Operating Surplus									39.35		14.00	101.12
Fiscal Analysis Division Add'l Operating Concerns												
Police & Fire Pension Payment Underbudgeted											(21.00)	
GRS Pension Payment Underbudgeted (Preliminary)											(10.00)	
TIFFA overcapture to be repaid - State's Prelim											(22.00)	
Overstated revenues in 2010-2011 Budget											(7.00)	
Adjustment to Operating Surplus												(60.00)
TOTAL				18.35	109.35	248.35	39.35	39.35	113.35	87.12	41.12	(58.38)

City of Detroit - FY 2009-2010 Deficit Elimination Analysis

		Risks			Opportunities			Nov-09			Apr-10		
		Low	Med	High	Low	Med	High	Cash	Operating Budget	Accumulated Deficit	Not Updated Cash	Operating Budget	Accumulated Deficit
FY 2009 Deficit										(326.00)			(331.90)
Fiscal Stabilization Bonds										230.00			250.00
Revenue Shortfall													
	State Revenue Sharing	(29.00)	(29.00)	(29.00)				(29.00)	(29.00)		-	(41.96)	
	Income Tax	(20.00)	(32.00)	(40.00)				(32.00)	(32.00)		-	(27.50)	
	Casinos	-	(5.50)	(10.00)				(5.50)	(5.50)		-	(5.00)	
	Property Tax	-	(2.50)	(5.00)				(2.50)	(2.50)		-	(9.77)	
	Departmental	-	-	-				-	-		-	(25.30)	
Layoffs													
	Phase I				3.85			3.85			3.80		
	Phase 2				3.80			3.80			3.85		
	Phase 2a				1.79			1.79			1.79		
	Phase 3				3.60			3.60	3.60		3.60	3.60	
	DDOT				3.75			3.75	3.75		3.75	3.75	
Cobo					-	11.25	-	11.25	11.25		7.10	7.10	
Delinquent Receivables					3.00	-	-	3.00	3.00		5.70	5.70	
GDRRA						20.00		20.00	20.00		20.00	20.00	
Budget Required Furlough					1.65	5.75		7.40	7.40		4.20	4.20	
Greektown Casino						8.00		8.00	8.00		9.60	9.60	
Crisis Turnaround Team													
	Recommendations				15.00	25.00	75.00	15.00	15.00		-	-	
Office of Restructuring					10.00	12.50	20.00	10.00	10.00		-	-	
State Revenue Sharing													
	FY 09 Cash Posting				23.00			23.00		23.00	23.00	23.00	
DDOT Grant Funding													
	Deficit Elimination				13.00			13.00		13.00	11.38	11.38	
DPS Bad Debt Expense								15.00		15.00			
Appropriation Surplus												6.15	
Non Departmental Revenues												(2.55)	
Operating Surplus/(Deficit)										13.00			(17.60)
TOTAL								73.44	13.00	(32.00)	97.77	(17.60)	(99.50)

City of Detroit - FY 2011-2012 Deficit Elimination Analysis												
	Risks			Opportunities			Nov-09			Apr-10		
	Low	Med	High	Low	Med	High	Cash	Operating Budget	Accumulated Deficit	Not Updated Cash	Operating Budget	Accumulated Deficit
FY 2011 Deficit									113.35			1.62
Debt Service				(20.00)	(20.00)		(20.00)	(20.00)		(14.10)	(14.10)	
GDRRA		1.00		1.00	1.00		1.00	1.00		1.00	1.00	
Consolidations and Associated Savings	15.00	100.00	200.00	15.00	15.00		15.00	15.00		10.00	10.00	
Operating/Process Changes	10.00	12.50	20.00	10.00	12.50		10.00	10.00		10.00	10.00	
Operating Surplus									6.00			6.90
TOTAL				6.00	8.50	-	6.00	6.00	119.35	6.90	6.90	8.52

**City of Detroit
FY 2009-10 Budget
Deficit Elimination Analysis**

	Risks			Opportunities			Nov-09			Apr-10		
	Low	Med	High	Low	Med	High	Cash	Operating Budget	Accumulated Deficit	Not updated Cash	Operating Budget	Accumulated Deficit
FY 2009 Deficit									(220.00)			(331.90)
Fiscal Stabilization Bonds									230.00			250.00
Revenue Shortfall												
State Revenue Sharing	(29.00)	(29.00)	(29.00)				(29.00)	(29.00)		-	(41.96)	
Income Tax	(20.00)	(32.00)	(40.00)				(32.00)	(32.00)		-	(27.50)	
Casinos	-	(5.50)	(10.00)				(5.50)	(5.50)		-	(5.00)	
Property Tax	-	(2.50)	(5.00)				(2.50)	(2.50)		-	(9.77)	
Departmental							-	-		-	(25.10)	
Layoffs												
Phase 1				3.85			3.85			3.85		
Phase 2				3.80			3.80			3.80		
Phase 2a				1.79			1.79			1.79		
Phase 3				3.60			3.60	3.60		3.60	3.60	
DOT				3.75			3.75	3.75		3.75	3.75	
Coba					11.25		11.25	11.25		7.10	7.10	
Delinquent Receivables				3.00			3.00	3.00		5.70	5.70	
GDRAA					20.00		20.00	20.00		20.00	20.00	
Budget Required Furlough				1.65	5.75		7.40	7.40		4.20	4.20	
Greektown Casino					8.00		8.00	8.00		9.60	9.60	
Crisis Turnaround Team Recommendations				15.00	25.00	75.00	15.00	15.00		-	-	
Office of Restructuring				10.00	12.50	20.00	10.00	10.00		-	-	
State Revenue Sharing FY09 Cash Posting				23.00			23.00		23.00	23.00	23.00	
DDOT Grant Funding Deficit Elimination				13.00			13.00		13.00	11.38	11.38	
DPS Bad Debt Expense							15.00		15.00			
Appropriation Surplus											6.15	
Non Departmental Revenue											(2.55)	
Operating Surplus/(Deficit)									13.00			(17.60)
TOTAL							\$ 73.44	\$ 13.00	\$ 74.00	\$ 97.77	\$ (17.60)	\$ (99.50)

Low - least impact on deficit

Med - modest impact on deficit

High - most impact on deficit

**City of Detroit
FY 2010-11 Budget
Deficit Elimination Analysis**

	Risks			Opportunities			Nov-09			Apr-10		
	Low	Med	High	Low	Med	High	Cash	Operating Budget	Accumulated Deficit	Cash	Operating Budget	Accumulated Deficit
FY 2010 Deficit									74.00			(99.50)
Debt Service												
Fiscal Stabilization	(20.00)						(20.00)	(20.00)		(14.10)	(14.10)	
Cobo				3.75	3.75	3.75	3.75	3.75		7.90	7.90	
Budget Required Furloughs				4.60	4.60	4.60	4.60	4.60		6.80	6.80	
Tunnel						40.00	40.00	40.00				
GDRRA					1.00		1.00	1.00		1.00	1.00	
Consolidations and Associated Savings				5.00	50.00	100.00	5.00	5.00				
Operating/Process Changes Restructuring/Consolidation Operating Surplus				5.00	50.00	100.00	5.00	5.00		85.52	85.52	101.12
									39.35	14.00		
TOTAL				\$ 18.35	\$ 109.35		\$ 39.35	\$ 39.35	\$ 113.35	\$ 87.12	\$ 101.12	\$ 1.62

Low - least impact on deficit
Med - modest impact on deficit
High - most impact on deficit

**City of Detroit
FY 2011-12 Budget
Deficit Elimination Analysis**

	Risks			Opportunities			Nov-09			Apr-10		
	Low	Med	High	Low	Med	High	Cash	Operating Budget	Accumulated Deficit	Cash	Operating Budget	Accumulated Deficit
FY 2011 Deficit									113.35			1.62
Debt Service				(20.00)	(20.00)		(20.00)	(20.00)		(14.10)	(14.10)	
GDRRA		1.00		1.00	1.00		1.00	1.00		1.00	1.00	
Consolidations and Associated Savings	15.00	100.00	200.00	15.00	15.00		15.00	15.00		10.00	10.00	
Operating/Process Changes	10.00	12.50	20.00	10.00	12.50		10.00	10.00		10.00	10.00	
Operating Surplus									6.00			6.90
TOTAL							\$ 6.00	\$ 6.00	\$ 119.35	\$ 6.90	\$ 6.90	\$ 8.52

Low - least impact on deficit
Med - modest impact on deficit
High - most impact on deficit

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Release Date: May 15, 2007
Last Update: April 12, 2010

Deficit Elimination Plan

In accordance with Public Act 140 of 1971, a local unit of government ending its fiscal year in a deficit condition shall formulate and file a deficit elimination plan with the Department of Treasury within 90 days after the beginning of the next fiscal year to correct the condition.

A deficit condition is defined as a fund where the total expenditure for that fund, including an accrued deficit, exceeds total revenues in that fund for the fiscal year.

General Plan Requirements:

- The deficit elimination plan must be approved by the legislative body of the local unit of government and a copy of the resolution must accompany the plan when filed with the Department of Treasury.
- A plan generally should be for one year, but in no case longer than five years.
- An audit firm hired by the local unit of government may provide advice; however, it cannot issue a deficit elimination plan.
- Once approved, the local unit will receive a signed certification letter.

Acceptable Plan Documentation:

- Interim financial statements documenting the elimination of the deficit within the current period.
- Certified copies of board/council resolutions (describing funds and amounts) approving additional appropriations sufficient to eliminate the deficit and a copy of the journal entry that shows that the transfer has been made.
- A current year or projected budget approved by the legislative body as evidenced by a certified resolution itemizing yearly revenues by source, expenditures/expenses by activity, and changes in the unreserved fund balance/unrestricted net assets through the year of the deficit's eventual elimination. The revenue and expenditure detail should correspond with the audit report. There is a five-year limit for an approved plan; the plan must be amended if the deficit increases or the plan is not otherwise followed.
- For tax increment finance or downtown development authorities, the ordinance or plan approving their existence is acceptable if it shows the flow of revenues and the priority of expenditures that would support the deficit elimination plan.
- For drain or other special assessment-type funds that have deficits, which are not "covered" on the balance sheet by a long-term receivable and deferred revenue, a letter from the Drain Commissioner summarizing assessment levies which could not be recognized for the audited fiscal year due to generally accepted accounting principles, will suffice as a deficit elimination plan.

It is extremely important to show the details for all revenue enhancements and likewise for all expenditure cuts. To be considered for approval, a plan must be substantive, quantifiable and realistic.

Contact information for questions or concerns:

Local Audit and Finance Division
Michigan Department of Treasury
P.O. Box 30728
Lansing, Michigan 48909-8228
(517) 373-0660
Treas_MunicipalFinance@michigan.gov

Sample Legislative Body Resolution and Multiple Year Deficit Elimination Plan:

(Sample Legislative Body Resolution and Deficit Elimination Plan)

WHEREAS (Sample Unit)'s **Park Fund** has a \$175,000 deficit fund balance on December 31, 2002; and

WHEREAS, Act 275 of the Public Acts of 1980 requires that a Deficit Elimination Plan be formulated by the local unit of government and filed with the Michigan Department of Treasury;

NOW THEREFORE, IT IS RESOLVED that the (Sample Unit)'s legislative body adopts the following as the (Sample Unit) **Park Fund** Deficit Elimination Plan:

	2003	2004	2005	2006
Fund Balance (Deficit) January 1	\$(175,000)	\$(169,000)	\$(93,000)	\$(17,000)
Revenue				
Property Taxes	60,000	75,000	76,500	78,000
State Grants	95,000			
Charges for Services	95,000	96,000	96,000	99,500
Other	1,000	1,000	1,500	1,400
General Fund	50,000	50,000	50,000	
Total Revenue	206,000	222,000	225,000	178,000
Expenditures				
Salaries and Wages	115,000	120,500	122,000	124,000
Supplies	15,000	15,500	16,000	16,000
Equipment Repair	4,000	4,000	4,500	4,500
Contractual Services	5,000	5,000	5,500	5,500
Other	1,000	1,000	1,000	1,200
Capital Outlay	60,000			
Total Expenditures	200,000	146,000	149,000	159,700
Fund Balance (Deficit) December 31	\$(169,000)	\$(93,000)	\$(17,000)	\$2,200

BE IT FURTHER RESOLVED that the (Sample Unit)'s (Official's Title) submits the Deficit Elimination Plan to the Michigan Department of Treasury for certification.

ADD CLERK'S CERTIFICATION